



Encouraging Revenues

Almarai reported encouraging 1Q19 revenues (+3.8% Y/Y) suggesting stabilizing market size and share. Cost pressure will remain from switch to imported alfalfa and worker fees however management is signaling plans to pursue growth through small-sized acquisitions and geographic expansion. Shares have gained +21% YTD, reaching almost 28x 2020E P/E. However, investors are bringing F&B back in favor as domestic market stabilizes and large caps benefit from index flows. Although valuation appears unattractive, we continue to believe Almarai will benefit from its scale and market leading position. Reiterate Buy and SAR 61 target price, representing 18.3x 2020E EV/EBITDA.

Growth across all product lines

Revenues positively surprised at SAR 3,354 mln (+3.8% Y/Y), ahead of our SAR 3,207 mln forecast, in particular +4.3% Y/Y growth in KSA. We expected continued outflow of foreign workers over the trailing 4 quarters to dent demand for staples however market and share growth across select categories (UHT) buoyed topline. Despite weakness in fresh dairy, sales of SAR 2,366 mln (+0.4% Y/Y), the segment was the main contributor to topline beat. We are encouraged by signs of fading impact of price hikes. Further, poultry sales continued to benefit from expansion in HORECA channel (110 mln birds run-rate, 180-200 mln birds capacity). Growth strategy will focus on innovation (fish, vegetables), geographic expansion (Egypt and UAE) and HORECA channel. Management is signaling growing appetite for M&A in the food services space. We see two key consequences of flatlining domestic market: acquisitions across verticals and outbound investment.

Gross margin pressured by alfalfa and feed costs

Gross margin contraction was sharper than expected due to imported alfalfa where the price difference is \$400/t vs \$200 (domestic). The Company maintains 18-22 months of alfalfa inventory which means further margin pressure in the coming quarters, unless costs are successfully passed through to consumers. Financing costs increased due to higher rates and sukuk refinance, contributing to net income decline of -2.6% Y/Y to SAR 336 mln.

Scope for dividend increase

Operating cash flow expected to further improve, topping SAR 4.5 bln next year while, capex-to-sales moderate (18% in 2018 from 24% in the prior year). In our view, this creates scope for dividend increase, even if the Company pursues small-sized acquisitions and geographic expansion.

SAR mln	1Q19	1Q19E	1Q18	Y/Y Chg	4Q18	Q/Q Chg	% Variance
Sales	3,354	3,207	3,232	3.8%	3,389	-1.0%	4.6%
Dairy & juice	2,366	2,266	2,357	0.4%	2,381	-0.6%	4.4%
Bakery	430	408	405	6.1%	475	-9.4%	5.4%
Poultry	502	480	421	19.4%	494	1.6%	4.7%
Others	55	53	49	12.7%	38	44.4%	4.2%
Gross profit	1,210	1,235	1,254	-3.6%	1,235	-2.0%	-2.0%
Gross margin	36.1%	38.5%	38.8%		36.4%		
EBITDA	852	865	836	2.0%	798	6.9%	-1.4%
EBITDA margin	25.4%	27.0%	25.8%		23.5%		
Operating income	481	502	485	-0.9%	466	3.2%	-4.3%
Operating margin	14.3%	15.7%	15.0%		13.7%		
Net income	336	379	345	-2.6%	370	-9.1%	-11.3%
Net margin	10.0%	11.8%	10.7%		10.9%		
EPS (SAR)	0.34	0.38	0.34	-2.6%	0.37	-9.1%	

SAR 61

12-Month Target price

Buy

Recommendation

Stock Details

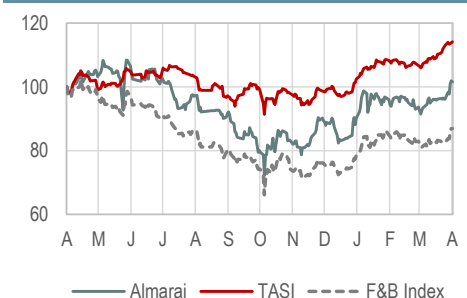
Last Close Price	SAR	58.10
Upside to target	%	5.0
Market Capitalization	SAR mln	58,100
Shares Outstanding	mln	1,000
52-Week High	SAR	62.80
52-Week Low	SAR	40.80
Price Change (YTD)	%	21.0
3-Mth ADTV	thd	406
EBITDA 2019E	SAR mln	4,001
Reuters / Bloomberg	2280.SE	ALMARAI AB

SAR mln	2018	2019E	2020E
Revenues	13,723	13,689	13,766
Gross Margin	40%	40%	39%
EBIT	2,461	2,550	2,546
Operating Margin	17.9%	18.6%	18.5%
Net Income	2,009	2,091	2,100
Net Margin	14.6%	15.3%	15.3%
Attr EPS (SAR)	1.95	2.09	2.10
DPS (SAR)	0.85	1.00	1.00

Price Multiples

	2018	2019E	2020E
P / E	29.7x	27.8x	27.7x
EV / EBITDA	18.5x	17.7x	17.5x
P / S	4.2x	4.2x	4.2x
P / B	4.2x	3.9x	3.6x

1-Year Share Performance (Rebased)



Source: Bloomberg, Tadawul, SFC

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BUY

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

HOLD

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

SELL

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

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